

HARBOR BEACH COMMUNITY SCHOOLS
Harbor Beach, Michigan

REPORT ON FINANCIAL STATEMENTS
(with additional information)
June 30, 2005

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Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

Harbor Beach School District, a K-12 school district located in Huron County, Michigan has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Harbor Beach School District administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005 and June 30, 2004.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to financial statements prepared prior to GASB 34. The primary difference is that the Account Groups (General Fixed Assets and General Long-term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, school district's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements included capital assets, net of related depreciation, as well as the bonded debt of the District.

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

Summary of Net Assets

The following schedule summarizes the net assets at fiscal years ended:

Assets	<u>June 30, 2004</u>	<u>June 30, 2005</u>
Current assets	\$ 4,331,016	\$3,223,403
Deferred amount on bond refunding	-	530,000
Capital assets	18,570,015	19,195,011
Less: Accumulated depreciation	<u>(2,077,602)</u>	<u>(2,435,925)</u>
Non current assets	16,492,413	17,289,086
Total assets	<u>\$20,823,429</u>	<u>\$20,512,489</u>
Liabilities		
Current liabilities	\$ 1,405,155	\$ 902,410
Long-term liabilities	<u>11,386,339</u>	<u>11,578,207</u>
Total liabilities	12,791,494	12,480,617
Net Assets		
Invested in capital assets, net of related debt	\$ 4,846,074	\$ 4,842,747
Restricted for debt service	200,400	202,480
Unrestricted	<u>2,985,461</u>	<u>2,986,645</u>
Total net assets	8,031,935	8,031,872
Total liabilities and net assets	<u>\$20,823,429</u>	<u>\$20,512,489</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2005, the District's net assets decreased by \$63. A few of the more significant factors affecting net assets during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Harbor Beach Community Schools

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2005

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal years ended June 30, 2005 and June 30, 2004, \$458,085 and \$397,636 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2005, \$724,758 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$266,673 for the fiscal year ended June 30, 2005.

Results of Operations

For the fiscal years ended June 30, 2005 and June 30, 2004, the results of operations, on a District-wide basis were:

	June 30, 2004		June 30, 2005	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property Taxes	\$1,992,349	27.1%	\$2,097,792	28.8%
Investment earnings	88,850	1.2%	31,336	.3%
State sources	4,157,457	56.4%	4,119,795	56.6%
Transfers from other districts	372,690	5.1%	387,191	5.3%
Other	11,134	0.2%	47,947	.7%
Total general revenues	6,622,480	90.0%	6,684,061	91.7%
Program Revenues				
Charges for services	145,695	2.0%	143,258	2.0%
Operating grants	595,786	8.0%	455,128	6.3%
Total revenues	\$7,363,961	100.0%	7,282,447	100.0%
Expenses				
Instruction	\$3,971,449	56.4%	\$3,926,412	54.0%
Support services	1,693,456	24.1%	1,887,684	25.7%
Community services	0		12,227	.2%
Food services	247,272	3.5%	275,115	3.8%
Athletics	155,635	2.2%	164,548	2.3%
Interest on long-term debt	575,178	8.2%	558,439	7.7%
Unallocated depreciation expense	397,636	5.6%	458,085	6.3%
Total expenses	\$7,040,626	100.0%	7,282,510	100.0%
Increase (decrease) in net assets	\$ 323,335		\$ (63)	

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 3l. According to Michigan law, the taxable levy is based on the taxable valuation of properties.

The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2004-2005 fiscal year, the District levied \$1,280,981 in non-homestead property taxes. This represented an increase of 6.61% from the prior year. The amount of unpaid property taxes at June 30, 2005, less an estimate for those deemed to be uncollectible, was \$1,500.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from Prior Year
2004-2005	\$1,280,981	6.61%
2003-2004	1,201,543	3.05%
2002-2003	1,165,946	5.85%
2001-2002	1,101,498	5.00%
2000-2001	1,049,020	3.66%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2004-2005 fiscal year, the District received \$6,700 per student FTE, which was the same base amount received for the 2003-2004 fiscal year.

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

3. Student Enrollment

The following schedule lists the actual FTE for the blended student enrollment for the past five fiscal years.

	Actual Blended Student FTE
2004-2005	772
2003-2004	778
2002-2003	779
2001-2002	789
2000-2001	818

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2005, federal, state, and other grants accounted for \$455,128. This represents a decrease over the total grant sources of \$140,658 received for the 2003-2004 fiscal year.

5. County Special Education Allocation

For the fiscal year ended June 30, 2005, the District received an allocation from the Huron Intermediate School District in the amount of \$372,690 to assist with the education of students with special needs. This amount represents a decrease of \$3,882 over the prior fiscal year.

6. Interest Earnings

The District received interest on its investments in the amount of \$31,336 for the fiscal year ended June 30, 2005. Interest revenues are down from the prior fiscal year by \$57,514 due to less cash to invest in the Capital Project Fund and the General Fund..

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

7. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in fund Balances is shown below:

	2003-2004 Fiscal Year	2004-2005 Fiscal Year	Increase (Decrease)
Expenditures			
Instruction	\$3,971,449	\$3,945,874	\$ (25,575)
Supporting services	2,045,383	2,005,602	(39,781)
Community services	0	12,227	12,227
Food service activities	247,272	275,115	27,843
Athletic activities	155,635	164,548	8,913
Capital Outlay	2,458,141	587,377	(1,870,764)
Debt Service	802,178	829,666	27,488
Total expenditures	\$9,680,058	\$7,820,409	\$(1,859,649)

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2004-2005 fiscal year, the District's board amended the general fund budget several times. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget positive (negative)	% Variance
Total revenues	\$5,927,956	\$6,313,476	\$6,193,237	\$(120,239)	(1.9)%
Expenditures					
Instruction	\$3,797,269	\$4,081,041	\$3,945,874	\$135,167	3.3%
Supporting services	1,922,687	2,051,880	2,005,602	46,278	2.3%
Community services	18,000	12,227	12,227	0	0.0%
Total expenditures	\$5,737,956	\$6,145,148	\$5,963,703	\$181,445	3.0%

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

The original revenue budget of \$5,927,956 was increased to \$6,313,476 primarily as a result of increased state revenues.

Capital Asset and Debt Administration

Capital Assets -

By the end of the 2004-2005 fiscal year, the District had invested \$19,195,011 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$624,996 over the prior fiscal year. Depreciation expense for the year amounted to \$458,085, bringing the accumulation to \$2,435,925 as of June 30, 2005.

Long-term Debt -

At June 30, 2005, the District had \$11,875,000 in bonded debt outstanding. This represents an increase of \$270,000 over the amount outstanding at the close of the prior fiscal year. The 2001 bond issue was refinanced during the year which should save the school district \$539,622 over the life of the bonds.

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2005-2006 fiscal year. The early indication is that the foundation allowance will be increased slightly which will pose a challenge to the District to maintain structural balance while continuing with its educational programming.

As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, the State has increased the retirement rate from 12.99% at July 1, 2004 to 14.87% at October 1, 2004 to 16.34% beginning October 1, 2005 to fund the retirement system. The increase in the number of retirees projected to occur over the next few years may result in continued higher annual increases.

The contract with the Harbor Beach Education Association, the union that represents the teaching staff, expired at the end of the 2004-2005 school year. Negotiations on a new contract for the years July 1, 2005 to June 30, 2008 are substantially completed.

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent's Office, Harbor Beach Community School District, 402 South Fifth Street, Harbor Beach, Michigan 48441.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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September 1, 2005

INDEPENDENT AUDITOR'S REPORT

Board of Education
Harbor Beach Community Schools
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of Harbor Beach Community Schools as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005 on our consideration of Harbor Beach Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Harbor Beach Community Schools
September 1, 2005

The management's discussion and analysis and budgetary comparison information on pages i through viii and page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Harbor Beach Community Schools' basic financial statements. The combining and individual non-major fund financial statements and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BASIC FINANCIAL STATEMENTS

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2005

CURRENT ASSETS	GOVERNMENTAL ACTIVITIES
Cash and equivalents	\$ 1,441,079
Investments	1,009,069
Accounts receivable	3,000
Due from other governmental units	768,755
Property taxes receivable	1,500
TOTAL CURRENT ASSETS	3,223,403
NONCURRENT ASSETS	
Deferred amount on bond refunding	530,000
Capital assets	19,195,011
Less accumulated depreciation	(2,435,925)
TOTAL NONCURRENT ASSETS	17,289,086
TOTAL ASSETS	\$ 20,512,489
 <u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 82,129
Benefits payable	100,975
Deferred revenue	22,452
Accrued interest	82,774
Retirement payable	33,587
Salaries payable	224,809
Other accruals	17,552
Current portion of long term debt	338,132
TOTAL CURRENT LIABILITIES	902,410
NONCURRENT LIABILITIES	
Noncurrent portion of long term debt	11,578,207
TOTAL LIABILITIES	12,480,617
NET ASSETS	
Invested in capital assets, net of related debt	4,842,747
Restricted for debt service	202,480
Unrestricted	2,986,645
TOTAL NET ASSETS	8,031,872
TOTAL LIABILITIES AND NET ASSETS	\$ 20,512,489

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 3,926,412		\$ 215,858	\$ (3,710,554)
Support services	1,887,684	\$ 35,195	92,510	(1,759,979)
Community services	12,227	9,300		(2,927)
Food services	275,115	69,674	146,760	(58,681)
Athletics	164,548	29,089		(135,459)
Interest on long-term debt	558,439			(558,439)
Unallocated depreciation	458,085			(458,085)
Total governmental activities	<u>\$ 7,282,510</u>	<u>\$ 143,258</u>	<u>\$ 455,128</u>	(6,684,124)
General revenues:				
Property taxes, levied for general purposes				1,280,981
Property taxes, levied for debt service				816,811
State sources				4,119,795
Investment revenue				31,336
Transfers from other districts				387,191
Miscellaneous				47,947
Total general revenue				<u>6,684,061</u>
Change in net assets				(63)
Net assets, beginning of year				<u>8,031,935</u>
Net assets, end of year				<u>\$ 8,031,872</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	GENERAL FUND	DEBT RETIREMENT	CAPITAL PROJECTS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash	\$ 900,669	\$ 285,254	\$ 23,551	\$ 231,605	\$ 1,441,079
Investments	1,009,069				1,009,069
Accounts receivable	3,000				3,000
Due from other funds	110,859		600,000		710,859
Due from other governmental units	768,755				768,755
TOTAL ASSETS	<u>\$ 2,792,352</u>	<u>\$ 285,254</u>	<u>\$ 623,551</u>	<u>\$ 231,605</u>	<u>\$ 3,932,762</u>
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES:					
Accounts payable	\$ 57,490		\$ 23,551	\$ 1,088	\$ 82,129
Benefits payable	100,975				100,975
Deferred Revenue	22,452				22,452
Due to other funds	600,000			110,859	710,859
Retirement payable	33,587				33,587
Salaries payable	222,425			2,384	224,809
Other accruals	17,016			536	17,552
Bonds payable					-
TOTAL LIABILITIES	<u>1,053,945</u>	<u>-</u>	<u>23,551</u>	<u>114,867</u>	<u>1,192,363</u>
FUND BALANCE:					
Reserved for debt service		\$ 285,254			285,254
Unreserved:					
Designated for special projects	97,359		600,000		697,359
Undesignated	1,641,048			116,738	1,757,786
TOTAL FUND BALANCE	<u>1,738,407</u>	<u>285,254</u>	<u>600,000</u>	<u>116,738</u>	<u>2,740,399</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,792,352</u>	<u>\$ 285,254</u>	<u>\$ 623,551</u>	<u>\$ 231,605</u>	<u>\$ 3,932,762</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2005

Total Fund Balances - Governmental Funds	\$ 2,740,399
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is:	19,195,011
Accumulated depreciation is:	(2,435,925)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable:	(11,916,339)
Deferred amount on bond refunding	530,000
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(82,774)

Balance of taxes receivable at 6/30/05 less allowance for doubtful accounts

1,500

Net Assets of Governmental Activities	<u><u>\$ 8,031,872</u></u>
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The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2005

	GENERAL FUND	DEBT RETIREMENT	CAPITAL PROJECTS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Local sources	\$ 1,391,363	\$ 820,520	\$ 132	\$ 108,318	\$ 2,320,333
State sources	4,106,315			13,480	4,119,795
Federal sources	308,368			146,760	455,128
Transfers from other districts	387,191				387,191
TOTAL REVENUES	6,193,237	820,520	132	268,558	7,282,447
EXPENDITURES					
Instruction	3,945,874				3,945,874
Supporting services	2,005,602				2,005,602
Community services	12,227				12,227
Food services				275,115	275,115
Athletic services				164,548	164,548
Capital outlay			587,377	-	587,377
Debt service:					
Principal redemption		260,000		-	260,000
Interest and fiscal charges		569,666		-	569,666
TOTAL EXPENDITURES	5,963,703	829,666	587,377	439,663	7,820,409
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	229,534	(9,146)	(587,245)	(171,105)	(537,962)
OTHER FINANCING SOURCES (USES)					
Bond refunding activity					-
Fund transfers in			600,000	155,000	755,000
Fund transfers out	(755,000)				(755,000)
TOTAL OTHER FINANCING SOURCES (USES)	(755,000)	-	600,000	155,000	-
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(525,466)	(9,146)	12,755	(16,105)	(537,962)
FUND BALANCE AT BEGINNING OF YEAR	2,263,873	294,400	587,245	132,843	3,278,361
FUND BALANCE AT END OF YEAR	\$ 1,738,407	\$ 285,254	\$ 600,000	\$ 116,738	\$ 2,740,399

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2005

Total net change in fund balances--governmental funds **\$ (537,962)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(458,085)
Capital outlay	724,758

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	94,000
Accrued interest payable at the end of the year	(82,774)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	260,000
--	---------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortization in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Proceeds from sale of refunding bonds	(9,875,000)
Payment to bond escrow agent	9,345,000
Deferred amount on bond refunding	530,000

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(1,500)
Accrued revenue at the end of the year	1,500

Change in net assets of governmental activities	\$ (63)
--	----------------

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

	<u>PRIVATE- PURPOSE TRUST</u>	<u>AGENCY FUNDS</u>
CURRENT ASSETS		
Cash	\$ 5,581	\$ 65,210
Investments	6,793	-
<i>TOTAL ASSETS</i>	<u>\$ 12,374</u>	<u>\$ 65,210</u>
 LIABILITIES		
Due to student organizations		\$ 65,210
<i>TOTAL LIABILITIES</i>		<u>\$ 65,210</u>
 NET ASSETS		
Reserved for scholarships	\$ 12,374	
<i>TOTAL NET ASSETS</i>	<u>\$ 12,374</u>	

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	PRIVATE- PURPOSE TRUST
ADDITIONS	
Interest earnings	\$ 94
Dividends	309
Increase (decrease) in fair market value of investments	143
Donations	-
	<hr/>
Total additions:	546
DEDUCTIONS	
Scholarships awarded	200
Transfers out	-
	<hr/>
Total deductions	200
	<hr/>
CHANGE IN NET ASSETS	346
	<hr/>
NET ASSETS	
Beginning of year	12,028
	<hr/>
End of year	\$ 12,374
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Harbor Beach Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Harbor Beach Community Schools (the "District") is governed by the Harbor Beach Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as general revenues.

The statement of activities reports both the gross and net cost of each of the District's functions. These functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function.

Operating grants include operating-specific and discretionary (either operating or capital) grants.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The Capital Projects Fund includes capital project activities funded by the sale of bonds. The following is a summary of the revenue and expenditures in the Harbor Beach Community School District current capital projects fund from the inception of the fund through the completion of the project at June 30, 2005.

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>TOTAL</u>
Revenue & other financing sources	\$132	\$ 69,863	\$ 300,838	\$12,250,067	\$12,620,900
Expenditures & other financing uses	\$587,377	\$2,458,141	\$8,761,727	\$ 813,655	\$12,620,900

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

OTHER NON-MAJOR FUNDS

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Nonexpendable trust funds account for assets where only the interest may be spent. These funds are not reported on the District's financial statements. The District's trust fund currently holds assets donated to the District.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION, (Continued):

State Foundation Revenue:

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005 the foundation allowance was based on the pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 - August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

State Categorical Revenue:

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue:

Expenditure-driven grants are recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available.

The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued): **ASSETS, LIABILITIES AND EQUITY, (Continued):**

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

The District along with certain other governmental units is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	18.00
Debt Service Fund	3.95

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

4. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$2,500. Group purchases are evaluated on a case-by-case basis.

5. Compensated Absences.

Each teacher is accorded a maximum of 100 compensated sick leave days. These sick days must be used during the school year. Any unused number of days is paid out at \$40 per day, with a maximum of \$480 per year. This is paid prior to June 30, therefore, no liability is recorded for accumulated compensated absences.

6. Unemployment Insurance.

The District reimburses the Bureau of Worker's & Unemployment Compensation (BW & UC) for the actual amount of unemployment benefits disbursed by the BW & UC on behalf of the District. Billings received for amounts paid by the through June 30 are accrued, if material.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

7. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets do not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

9. Memorandum Only - Total Column.

The total column on the combined basic financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

10. Use of Estimates.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1st. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1st, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, the School Board must approve these transfers and any revisions that alter the total expenditures of any fund.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK:

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
Oppenheimer Core Bond Fund	\$6,793	0.0027	A	1%
MILAF External Investment pool -MIMAX	1,009,069	0.0027	AAAm	99%
Total fair value	<u>\$ 1,015,862</u>			100.0%
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2005, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$1,595,061 of the District's bank balance of \$1,822,866 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Included in the above deposit figures are bank money market deposits of \$802,034.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK, (Continued):

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$70,791	\$ 1,511,870
Investments - including fiduciary funds of \$6,793	<u>1,015,862</u>
	<u><u>\$ 2,527,732</u></u>

The above amounts are reported in the financial statements as follows:

Cash - Private Purpose Trust Fund	\$ 5,581
Cash - Agency Fund	65,210
Cash - District wide	1,441,079
Investments - Private Purpose Trust Fund	6,793
Investments - District wide	<u>1,009,069</u>
	<u><u>\$ 2,527,732</u></u>

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 4 - LONG-TERM DEBT:

During the fiscal year ending June 30, 2005, the district refinanced \$9,345,000 of the 2001 bonds. The refinancing is expected to save the district approximately \$352,055 over the next 22 years.

Following is a summary of the various long-term debt of the school district:

1998 Durant Bonds	\$ 41,339
2001 School Building and Site Bonds	2,000,000
2005 Refunding Bonds	9,875,000
Less: deferred amount on bond refunding	<u>(530,000)</u>
Total long-term debt	\$11,386,339

DEBT SERVICE REQUIREMENTS:

The annual requirements to amortize long-term debt outstanding as of June 30, 2005 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 338,132	\$ 491,011	\$ 829,143
2007	358,280	489,013	847,293
2008	368,438	474,269	842,707
2009	383,601	459,743	843,344
2010	398,773	444,091	842,864
2011	425,638	432,620	858,258
2012	434,140	409,639	843,779
2013	454,337	392,241	846,578
2014	470,000	374,035	844,035
2015	490,000	354,060	844,060
2016	510,000	334,460	844,460
2017	530,000	312,785	842,785
2018	555,000	290,260	845,260
2019	575,000	266,673	841,673
2020	600,000	242,235	842,235
2021	630,000	216,735	846,735
2022	655,000	189,960	844,960
2023	685,000	162,122	847,122
2024	715,000	133,010	848,010
2025	745,000	102,623	847,623
2026	780,000	70,587	850,587
2027	<u>815,000</u>	<u>36,267</u>	<u>851,267</u>
Total	11,916,339	6,678,439	18,594,778
Deferred amount on bond refunding	(530,000)		(530,000)
Total	\$11,386,339	\$6,678,439	\$18,064,778

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 4 - LONG-TERM DEBT, (Continued):

An amount of \$285,254 is available in the debt service fund to service the general obligation debt.

CHANGES IN LONG-TERM DEBT:

Following is a summary of long-term debt transactions of the district for the year ended June 30, 2005:

	<u>GENERAL OBLIGATION</u>
Long-term debt - July 1, 2004	\$11,646,339
2001 School Bonds Refinanced	(9,345,000)
School Building and Site Bonds paid	(260,000)
2005 Refunding Bonds	9,875,000
Deferred amount on bond refunding	<u>(530,000)</u>
Total	\$11,386,339

Interest expense (all funds) for the year ended June 30, 2005 was \$558,439.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN, (Continued):

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 12.99% through September 2004 and 14.87% for October 1, 2004 through June 30, 2005. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributes to MPSERS for the years ended June 30, 2005, 2004 and 2003 were \$507,793, \$459,786 and \$462,966, respectively, equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other post-employment benefits - Under the MPSERS' Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 6 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$110,859	\$600,000
Capital Project Fund	600,000	
Special Revenue Fund	<u> </u>	<u>110,859</u>
Total	<u>\$710,859</u>	<u>\$710,859</u>

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 8 – DESIGNATED FUND BALANCE:

The fund balance in the General Fund has been designated by the School Board at June 30, 2005 for the following purposes:

Technology Fund	40,000
Curriculum Revisions/Math	22,571
Curriculum Revisions/LA	<u>34,788</u>
 Total	 <u>\$97,359</u>

NOTE 9 – SECTION 125 CAFETERIA PLAN:

The School District established a Section 125 Cafeteria Plan through AFLAC Administrative Services. All employees who meet the plan criteria are eligible to participate beginning with the 2002-2003 school year.

NOTE 10 – TRANSFERS:

The general fund transferred \$155,000 to the athletic fund and \$600,000 to the capital project fund during the current fiscal year.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 11 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	BALANCE JULY 1, 2004	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2005
Assets not being depreciated - land	\$ 57,065			\$ 57,065
Other capital assets:				
Buildings and additions	\$17,021,172	618,974		17,640,146
Technology	310,277	54,241		364,518
Athletic equipment	313,590			313,590
General equipment	232,461	51,543		284,004
Transportation equipment	635,450	-	(99,762)	535,688
Subtotal	18,512,950	724,758	(99,762)	19,137,946
Total accumulated depreciation	(2,077,602)	(458,085)	(99,762)	(2,435,925)
Net other capital assets	16,435,348	266,673	0	16,702,021
Net capital assets	\$16,492,413	266,673	0	16,759,086

Depreciation expense was charged as unallocated to the governmental activities in the amount of \$458,085.

NOTE 12 –FINAL BOND AUDIT REPORT:

The Capital Projects Fund includes capital project activities funded by the sale of bonds. The following is a summary of the revenue and expenditures in the Harbor Beach School District capital projects fund from the inception of the fund through the completion of the project.

	6-30-02	6-30-03	6-30-04	6-30-05	TOTAL
REVENUE:					
Sale of bonds	\$11,927,556				\$11,927,556
Interest income	322,511	\$ 300,838	\$ 69,863	\$ 132	693,344
TOTAL REVENUES	12,250,067	300,838	69,863	132	12,620,900
EXPENDITURES:					
Construction costs	813,655	8,761,727	2,458,141	587,378	12,620,901
TOTAL EXPENDITURES	813,655	8,761,727	2,458,141	587,378	12,620,901
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES	11,436,412	(8,460,889)	\$(2,388,278)	(587,246)	\$ 0
FUND BALANCE – BEGINNING OF YEAR	0	11,436,412	2,975,523	587,245	
FUND BALANCE – END OF YEAR	\$11,436,412	\$ 2,975,523	\$ 587,245	\$ 0	

REQUIRED SUPPLEMENTARY INFORMATION

HARBOR BEACH COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES:				
Local sources	\$ 51,200	\$ 1,392,035	\$ 1,391,363	\$ (672)
State sources	5,073,438	4,134,329	4,106,315	(28,014)
Federal sources	332,686	301,926	308,368	6,442
Transfers from other districts	470,632	485,186	387,191	(97,995)
TOTAL REVENUES	<u>5,927,956</u>	<u>6,313,476</u>	<u>6,193,237</u>	<u>(120,239)</u>
EXPENDITURES:				
Instruction	3,797,269	4,081,041	3,945,874	135,167
Supporting services	1,922,687	2,051,880	2,005,602	46,278
Community services	18,000	12,227	12,227	-
TOTAL EXPENDITURES	<u>5,737,956</u>	<u>6,145,148</u>	<u>5,963,703</u>	<u>181,445</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>190,000</u>	<u>168,328</u>	<u>229,534</u>	<u>61,206</u>
OTHER FINANCING SOURCES (USES):				
Transfer to Other Funds	<u>(190,000)</u>	<u>(168,328)</u>	<u>(755,000)</u>	<u>(586,672)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(190,000)</u>	<u>(168,328)</u>	<u>(755,000)</u>	<u>(586,672)</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(525,466)</u>	<u>(525,466)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>2,263,873</u>	<u>2,263,873</u>	<u>2,263,873</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,263,873</u>	<u>\$ 2,263,873</u>	<u>\$ 1,738,407</u>	<u>\$ (525,466)</u>

ADDITIONAL INFORMATION

HARBOR BEACH COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2005

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2005</u>
<i>ASSETS</i>		
CURRENT ASSETS:		
Cash	\$ 231,605	\$ 231,605
<i>TOTAL ASSETS</i>	<u>\$ 231,605</u>	<u>\$ 231,605</u>
 <i>LIABILITIES AND FUND BALANCE</i>		
LIABILITIES:		
Accounts payable	\$ 1,088	\$ 1,088
Salaries payable	2,384	2,384
Due to other funds	110,859	110,859
Accrued Liabilities	<u>536</u>	<u>536</u>
TOTAL LIABILITIES	<u>114,867</u>	<u>114,867</u>
FUND BALANCE:		
Unreserved	<u>116,738</u>	<u>116,738</u>
TOTAL FUND BALANCE	<u>116,738</u>	<u>116,738</u>
<i>TOTAL LIABILITIES & FUND BALANCE</i>	<u>\$ 231,605</u>	<u>\$ 231,605</u>

HARBOR BEACH COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2005

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2005</u>
REVENUES:		
Local sources		
Admissions	\$ 29,089	\$ 29,089
Meals	59,300	59,300
A la carte	9,696	9,696
Vending machines	678	678
Interest	3,555	3,555
Miscellaneous	6,000	6,000
	<hr/>	<hr/>
Total local sources	108,318	108,318
	<hr/>	<hr/>
State sources		
State aid	13,480	13,480
	<hr/>	<hr/>
Federal sources		
National School Lunch Program	136,145	136,145
USDA Commodities	10,615	10,615
	<hr/>	<hr/>
Total federal sources	146,760	146,760
	<hr/>	<hr/>
TOTAL REVENUES	268,558	268,558
	<hr/>	<hr/>
EXPENDITURES:		
Food services	275,115	275,115
Athletics	164,548	164,548
Capital outlay		-
Debt retirement:		
Principal repayment		-
Interest and other fiscal charges		-
	<hr/>	<hr/>
TOTAL EXPENDITURES	439,663	439,663
	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(171,105)	(171,105)
	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):		
Fund transfers in	155,000	155,000
	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	155,000	155,000
	<hr/>	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(16,105)	(16,105)
	<hr/>	<hr/>
FUND BALANCE - BEGINNING OF YEAR	132,843	132,843
	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 116,738	\$ 116,738
	<hr/>	<hr/>

HARBOR BEACH COMMUNITY SCHOOLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS) -
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Local sources	\$ 1,392,035	\$ 1,391,363	\$ (672)
State sources	4,134,329	4,106,315	(28,014)
Federal sources	301,926	308,368	6,442
Other transactions:			
Payments received from other school districts	485,186	387,191	(97,995)
TOTAL REVENUES	6,313,476	6,193,237	(120,239)
EXPENDITURES			
Instruction	4,081,041	3,945,874	135,167
Supporting services	2,051,880	2,005,602	46,278
Community services	12,227	12,227	-
Food services			-
Athletic services			-
Debt service:			
Principal redemption			
Interest and fiscal charges	-	-	-
TOTAL EXPENDITURES	6,145,148	5,963,703	181,445
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	168,328	229,534	61,206
OTHER FINANCING SOURCES (USES):			
Fund transfers in			
Fund transfers out	(168,328)	(755,000)	(586,672)
TOTAL OTHER FINANCING SOURCES (USES)	(168,328)	(755,000)	(586,672)
EXCESS (DEFICIENCY) OR REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	\$ -	(525,466)	\$ (525,466)
FUND BALANCE - BEGINNING OF YEAR		2,263,873	
FUND BALANCE - END OF YEAR		\$ 1,738,407	

SPECIAL REVENUE FUND		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 121,587	\$ 108,318	\$ (13,269)
2,148	13,480	11,332
157,380	146,760	(10,620)
281,115	268,558	(12,557)
		-
		-
		-
283,456	275,115	8,341
191,500	164,548	26,952
		-
474,956	439,663	35,293
(193,841)	(171,105)	22,736
193,841	155,000	(38,841)
193,841	155,000	(38,841)
\$ -	(16,105)	\$ (16,105)
	132,843	
	\$ 116,738	

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
LOCAL SOURCES:			
Property taxes	\$ 1,281,746	\$ 1,280,981	\$ (765)
Tuition - driver education	9,300	9,300	-
Transportation	25,895	25,895	-
Earnings on investments	24,000	23,940	(60)
Grants and donations	2,700	2,700	-
Other local revenues	48,394	48,547	153
Total Local Sources	<u>1,392,035</u>	<u>1,391,363</u>	<u>(672)</u>
STATE SOURCES:			
State aid	3,746,397	3,756,889	10,492
Durant settlement	6,471	6,471	-
Special education	168,994	153,930	(15,064)
Drivers education	3,153	3,153	-
Other state sources:			-
At Risk	208,231	185,766	(22,465)
Other	1,083	106	(977)
Total State Sources	<u>4,134,329</u>	<u>4,106,315</u>	<u>(28,014)</u>
FEDERAL SOURCES:			
Title I	217,091	217,091	-
Title V	3,765	3,765	-
Title II	71,077	71,077	-
Transition	-	1,442	1,442
Other	9,993	14,993	5,000
Total Federal Sources	<u>301,926</u>	<u>308,368</u>	<u>6,442</u>
OTHER TRANSACTIONS:			
Incoming Transfers:			
Tuition	28,600	24,600	(4,000)
Transportation	94,701	6,311	(88,390)
Special education	278,325	278,325	-
Vocational education	10,391	10,391	-
Gifted and talented	-	-	-
Medicaid services coordination	25,153	25,153	-
Other	48,016	42,411	(5,605)
Total Other Transactions	<u>485,186</u>	<u>387,191</u>	<u>(97,995)</u>
TOTAL REVENUES AND OTHER TRANSACTIONS	<u>\$ 6,313,476</u>	<u>\$ 6,193,237</u>	<u>\$ (120,239)</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
ELEMENTARY			
Professional Salaries	\$ 522,824	\$ 522,824	\$ -
Non-Professional Salaries	24,258	24,258	-
Insurance Benefits	99,028	99,028	-
Severance Pay	-	-	-
FICA	123,020	123,020	-
Purchased Services	15,971	15,971	-
Supplies	33,799	32,489	1,310
Capital Outlay	9,169	9,169	-
Total Elementary	<u>828,069</u>	<u>826,759</u>	<u>1,310</u>
MIDDLE SCHOOL			
Professional Salaries	498,090	498,090	-
Non-Professional Salaries	17,869	3,486	14,383
Insurance Benefits	131,859	131,859	-
Severance Pay	-	-	-
FICA	110,587	107,347	3,240
Purchased Services	9,934	9,934	-
Supplies	60,031	60,031	-
Capital Outlay	2,422	2,422	-
Miscellaneous Other Expenses	1,185	1,185	-
Total Middle School	<u>831,977</u>	<u>814,354</u>	<u>17,623</u>
SECONDARY			
Professional Salaries	684,063	672,258	11,805
Non-Professional Salaries	38,059	38,059	-
Insurance Benefits	155,512	155,512	-
Severance Pay	-	-	-
FICA	142,524	142,524	-
Purchased Services	84,300	84,200	100
Supplies	85,200	85,472	(272)
Capital Outlay	16,096	16,096	-
Miscellaneous Other Expenses	1,937	1,937	-
Total Secondary	<u>1,207,691</u>	<u>1,196,058</u>	<u>11,633</u>
BASIC PROGRAMS/ ADDED NEEDS			
Gifted and Talented			
Purchased Services	150	150	-
Supplies	1,681	1,681	-

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS, (Continued):			
BASIC PROGRAMS/ ADDED NEEDS, (Continued):			
Special Education:			
Professional Salaries	\$ 349,232	\$ 349,232	\$ -
Non-Professional Salaries	37,168	37,168	-
Insurance Benefits	61,253	61,253	-
FICA	83,643	83,643	-
Purchased Services	5,396	5,396	-
Supplies	9,052	8,945	107
At Risk			
Professional Salaries	144,428	99,018	45,410
Non-Professional Salaries	15,576	29,959	(14,383)
Insurance Benefits	18,220	18,220	-
FICA	25,635	28,874	(3,239)
Purchased Services	7,820	7,820	-
Supplies	1,874	1,874	-
IDEA			
Capital Outlay	-	-	-
Technology			
Purchased Services	-	-	-
Title I			
Professional Salaries	156,057	97,438	58,619
Non-Professional Salaries	56,226	56,226	-
Insurance Benefits	38,779	24,726	14,053
FICA	40,718	28,858	11,860
Purchased Services	7,861	7,861	-
Supplies	2,082	3,814	(1,732)
Vocational education			
Professional Salaries	40,975	40,975	-
Insurance Benefits	14,053	14,053	-
FICA	9,151	9,151	-
Purchased Services	8,241	8,241	-
Supplies	3,768	3,768	-
Title VI			
Professional Salaries	-	-	-
FICA	-	-	-
Supplies	3,765	3,765	-

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS/ADDED NEEDS, (Continued):			
Tech Literacy			
Non-Professional Salaries	\$ -	\$ -	\$ -
FICA	-	-	-
Supplies	5,517	5,517	-
Title II			
Professional Salaries	47,508	52,213	(4,705)
Insurance Benefits	1,491	2,880	(1,389)
FICA	15,984	15,984	-
Purchased Services	-	-	-
Capital Outlay	-	-	-
	<u>1,213,304</u>	<u>1,108,703</u>	<u>104,601</u>
Total Added Needs			
	<u>1,213,304</u>	<u>1,108,703</u>	<u>104,601</u>
TOTAL INSTRUCTION	<u>4,081,041</u>	<u>3,945,874</u>	<u>135,167</u>
SUPPORTING SERVICES:			
GUIDANCE SERVICES:			
Professional Salaries	43,616	44,842	(1,226)
Non-Professional Salaries	21,292	21,674	(382)
Insurance Benefits	1,053	1,053	-
FICA	14,434	14,795	(361)
Purchased Services	5,272	5,272	-
Supplies	863	863	-
Capital Outlay	-	-	-
	<u>86,530</u>	<u>88,499</u>	<u>(1,969)</u>
Total Guidance Services			
	<u>86,530</u>	<u>88,499</u>	<u>(1,969)</u>
IMPROVEMENT OF INSTRUCTION			
Non-Professional Salaries	-	-	-
FICA	-	-	-
Purchased Services	-	-	-
Supplies	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
SCHOOL ADMINISTRATION:			
Professional Salaries	\$ 189,776	\$ 205,719	\$ (15,943)
Non-Professional Salaries	45,782	47,688	(1,906)
Insurance Benefits	38,316	38,316	-
FICA	53,779	54,209	(430)
Purchased Services	6,087	6,087	-
Supplies	8,587	8,586	1
Capital Outlay	7,464	7,464	-
Miscellaneous Other Expenses	2,072	2,072	-
Total School Administration	<u>351,863</u>	<u>370,141</u>	<u>(18,278)</u>
BOARD OF EDUCATION:			
Professional Salaries	7,920	7,920	-
Purchased Services	24,833	21,011	3,822
Supplies	17,512	17,512	-
Miscellaneous Other Expenses	28,309	28,309	-
Total Board of Education	<u>78,574</u>	<u>74,752</u>	<u>3,822</u>
EXECUTIVE ADMINISTRATION			
Professional Salaries	129,088	129,088	-
Non-Professional Salaries	55,060	56,684	(1,624)
Insurance Benefits	28,716	28,716	-
FICA	34,719	35,085	(366)
Purchased Services	15,155	15,155	-
Supplies	13,952	13,952	-
Capital Outlay	111,077	109,314	1,763
Miscellaneous Other Expenses	2,425	2,425	-
Total Executive Administration	<u>390,192</u>	<u>390,419</u>	<u>(227)</u>
FISCAL SERVICES:			
Non-Professional Salaries	61,973	63,216	(1,243)
Insurance Benefits	15,849	15,849	-
FICA	13,394	13,930	(536)
Purchased Services	271	271	-
Supplies	916	916	-
Miscellaneous Other Expenses	258	258	-
Total Fiscal Services	<u>92,661</u>	<u>94,440</u>	<u>(1,779)</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
OPERATION & MAINTENANCE:			
Non-Professional Salaries	\$ 160,143	\$ 165,637	\$ (5,494)
Insurance Benefits	82,624	82,624	-
FICA	36,502	37,739	(1,237)
Purchased Services	291,229	257,229	34,000
Supplies	29,880	24,457	5,423
Capital Outlay	82,502	52,726	29,776
	<u>682,880</u>	<u>620,412</u>	<u>62,468</u>
Total Operation & Maintenance			
PUPIL TRANSPORTATION:			
Non-Professional Salaries	169,740	167,044	2,696
Insurance Benefits	53,531	53,531	-
FICA	37,348	37,803	(455)
Purchased Services	15,938	15,938	-
Supplies	50,123	50,123	-
Capital Outlay	4,810	4,810	-
	<u>331,490</u>	<u>329,249</u>	<u>2,241</u>
Total Pupil Transportation			
OTHER BUSINESS SERVICES:			
Insurance Benefits	-	-	-
FICA	8,985	8,985	-
Purchased Services	28,705	28,705	-
Miscellaneous Other Expenses	-	-	-
	<u>37,690</u>	<u>37,690</u>	<u>-</u>
Total Other Business Services			
TOTAL SUPPORTING SERVICES	<u>2,051,880</u>	<u>2,005,602</u>	<u>46,278</u>
COMMUNITY SERVICE			
Drivers Education	<u>12,227</u>	<u>12,227</u>	<u>-</u>
TOTAL COMMUNITY SERVICE			
TOTAL EXPENDITURES	<u>6,145,148</u>	<u>5,963,703</u>	<u>181,445</u>
OUTGOING TRANSFERS AND OTHER:			
Other transfers	155,000	755,000	(600,000)
Contingency Fund	13,328	-	13,328
	<u>168,328</u>	<u>755,000</u>	<u>(586,672)</u>
TOTAL OUTGOING TRANSFERS AND OTHER			
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 6,313,476</u>	<u>\$ 6,718,703</u>	<u>\$ (405,227)</u>

HARBOR BEACH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 178,298	\$ 53,307	\$ 231,605
<u>TOTAL ASSETS</u>	<u>\$ 178,298</u>	<u>\$ 53,307</u>	<u>\$ 231,605</u>
 <u>LIABILITIES & FUND EQUITY</u>			
LIABILITIES:			
Accounts payable	\$ -	\$ 1,088	\$ 1,088
Salaries payable	1,898	486	2,384
Due to other funds	102,926	7,933	110,859
Accrued Liabilities	427	109	536
TOTAL LIABILITIES	<u>105,251</u>	<u>9,616</u>	<u>114,867</u>
 FUND EQUITY:			
Fund Balance	<u>73,047</u>	<u>43,691</u>	<u>116,738</u>
TOTAL FUND BALANCE	<u>73,047</u>	<u>43,691</u>	<u>116,738</u>
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ 178,298</u>	<u>\$ 53,307</u>	<u>\$ 231,605</u>

HARBOR BEACH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
REVENUES:			
Local sources:			
Admissions		\$ 29,089	\$ 29,089
Meals	\$ 59,300		59,300
A la carte	9,696		9,696
Vending machines	678		678
Miscellaneous		6,000	6,000
Interest	3,555		3,555
Total local sources	<u>73,229</u>	<u>35,089</u>	<u>108,318</u>
State sources - State Aid	<u>13,480</u>		<u>13,480</u>
Federal sources:			
National School Lunch program	136,145		136,145
USDA Commodities	10,615		10,615
Total federal sources	<u>146,760</u>	<u>-</u>	<u>146,760</u>
TOTAL REVENUES	<u>233,469</u>	<u>35,089</u>	<u>268,558</u>
EXPENDITURES:			
Professional Salaries		79,101	79,101
Non-Professional Salaries	82,614	11,944	94,558
Insurance Benefits	5,926		5,926
FICA	16,688	19,284	35,972
Purchased Services	36,707	35,650	72,357
Supplies	132,870	3,965	136,835
Capital Outlay	310	11,744	12,054
Miscellaneous Other Expenses	<u>-</u>	<u>2,860</u>	<u>2,860</u>
TOTAL EXPENDITURES	<u>275,115</u>	<u>164,548</u>	<u>439,663</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(41,646)</u>	<u>(129,459)</u>	<u>(171,105)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	-	155,000	155,000
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>(41,646)</u>	<u>25,541</u>	<u>(16,105)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>114,693</u>	<u>18,150</u>	<u>132,843</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 73,047</u></u>	<u><u>\$ 43,691</u></u>	<u><u>\$ 116,738</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Local sources:			
Meals	\$ 64,046	\$ 59,300	\$ (4,746)
A la carte	12,043	9,696	(2,347)
Vending machines	7,083	678	(6,405)
Interest	1,915	3,555	1,640
Total local sources	<u>85,087</u>	<u>73,229</u>	<u>(11,858)</u>
State sources-State Aid	<u>2,148</u>	<u>13,480</u>	<u>11,332</u>
Federal sources:			
National School Lunch program	141,164	136,145	(5,019)
USDA Commodities	16,216	10,615	(5,601)
Total federal sources	<u>157,380</u>	<u>146,760</u>	<u>(10,620)</u>
TOTAL REVENUES	<u>244,615</u>	<u>233,469</u>	<u>(11,146)</u>
EXPENDITURES:			
Non-Professional Salaries	79,158	82,614	(3,456)
Insurance Benefits	22,380	5,926	16,454
FICA	17,827	16,688	1,139
Purchased Services	20,272	36,707	(16,435)
Supplies	139,125	132,870	6,255
Capital Outlay	4,694	310	4,384
Miscellaneous Other Expenses	-	-	-
TOTAL EXPENDITURES	<u>283,456</u>	<u>275,115</u>	<u>8,341</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(38,841)</u>	<u>(41,646)</u>	<u>(2,805)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	<u>38,841</u>	<u>-</u>	<u>(38,841)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>-</u>	<u>(41,646)</u>	<u>(41,646)</u>
FUND BALANCE AT BEGINNING OF YEAR	114,693	114,693	
FUND BALANCE AT END OF YEAR	<u>\$ 114,693</u>	<u>\$ 73,047</u>	<u>\$ (41,646)</u>

HARBOR BEACH COMMUNITY SCHOOLS
ATHLETIC FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Admissions	\$ 35,000	\$ 29,089	\$ (5,911)
Donation	1,500	6,000	4,500
TOTAL REVENUES	<u>36,500</u>	<u>35,089</u>	<u>(1,411)</u>
EXPENDITURES:			
Professional Salaries	82,000	79,101	2,899
Non-Professional Salaries	15,375	11,944	3,431
FICA	21,930	19,284	2,646
Purchased Services	47,000	35,650	11,350
Supplies	7,600	3,965	3,635
Capital Outlay	13,400	11,744	1,656
Miscellaneous Other Expenses	4,195	2,860	1,335
TOTAL EXPENDITURES	<u>191,500</u>	<u>164,548</u>	<u>26,952</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(155,000)</u>	<u>(129,459)</u>	<u>25,541</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	155,000	155,000	-
EXCESS REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>-</u>	<u>25,541</u>	<u>25,541</u>
FUND BALANCE AT BEGINNING OF YEAR	18,150	18,150	
FUND BALANCE AT END OF YEAR	<u>\$ 18,150</u>	<u>\$ 43,691</u>	<u>\$ 25,541</u>

HARBOR BEACH COMMUNITY SCHOOLS
CAPITAL PROJECT FUND
COMBINING BALANCE SHEET
June 30, 2005

	<u>2001 CAPITAL PROJECT FUND</u>	<u>CAPITAL PROJECT REPLACEMENT & IMPROVEMENT FUND</u>	<u>TOTAL 2005</u>
<i>ASSETS</i>			
Cash	\$ 23,551		\$ 23,551
Due from other funds		\$ 600,000	600,000
	<u>\$ 23,551</u>	<u>\$ 600,000</u>	<u>\$ 623,551</u>
 <i>LIABILITIES AND FUND BALANCE</i>			
LIABILITIES:			
Accounts payable	\$ 23,551		\$ 23,551
TOTAL LIABILITIES	<u>23,551</u>	<u>-</u>	<u>23,551</u>
FUND BALANCE:			
Unreserved	<u>-</u>	\$ 600,000	600,000
TOTAL FUND BALANCE	<u>-</u>	<u>600,000</u>	<u>600,000</u>
<i>TOTAL LIABILITIES & FUND BALANCE</i>	<u>\$ 23,551</u>	<u>\$ 600,000</u>	<u>\$ 623,551</u>

HARBOR BEACH COMMUNITY SCHOOLS
CAPITAL PROJECT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>2001 CAPITAL PROJECT FUND</u>	<u>CAPITAL PROJECT REPLACEMENT & IMPROVEMENT FUND</u>	<u>TOTAL 2005</u>
REVENUES			
Interest income	\$ 132		\$ 132
TOTAL REVENUES	<u>132</u>		<u>132</u>
EXPENDITURES			
Capital outlay	<u>587,377</u>		<u>587,377</u>
TOTAL EXPENDITURES	<u>587,377</u>		<u>587,377</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(587,245)</u>	<u>-</u>	<u>(587,245)</u>
OTHER FINANCING SOURCES (USES)			
Fund transfers in		\$ 600,000	600,000
TOTAL OTHER FINANCING SOURCES (USES)		<u>600,000</u>	<u>600,000</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(587,245)	600,000	12,755
FUND BALANCE AT BEGINNING OF YEAR	<u>587,245</u>	<u>-</u>	<u>587,245</u>
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ 600,000</u>

HARBOR BEACH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	<u>2001 SCHOOL BUILDING AND SITE BONDS</u>	<u>DURANT BONDS</u>	<u>TOTAL 2005</u>
<i>ASSETS</i>			
Cash and investments	\$ 285,254	\$ -	\$ 285,254
	<u>\$ 285,254</u>	<u>\$ -</u>	<u>\$ 285,254</u>
<i>FUND BALANCES</i>			
Fund balances	<u>\$ 285,254</u>	<u>\$ -</u>	<u>\$ 285,254</u>

HARBOR BEACH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>2001 SCHOOL BUILDING AND SITE BONDS</u>	<u>DURANT BONDS</u>	<u>TOTAL 2005</u>
REVENUES:			
Local Sources:			
Property taxes	\$ 816,811		\$ 816,811
Interest	3,709		3,709
	<u>820,520</u>	<u>-</u>	<u>820,520</u>
Total Local Sources			
State sources			-
	<u>820,520</u>	<u>-</u>	<u>820,520</u>
TOTAL REVENUES			
EXPENDITURES:			
Debt Service:			
Principal repayment	260,000		260,000
Interest and other fiscal charges	569,666		569,666
	<u>829,666</u>	<u>-</u>	<u>829,666</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,146)	-	(9,146)
OTHER FINANCING SOURCES (USES):			
Proceeds from bond refunding	9,974,848		9,974,848
Payment to bond escrow agent	(9,774,700)		(9,774,700)
Payments for premiums and discounts	(109,221)		(109,221)
Bond issuance costs	(90,927)		(90,927)
Operating transfers in			-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES):			
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	(9,146)	-	(9,146)
FUND BALANCES:			
Beginning of Year	294,400	-	294,400
	<u>294,400</u>	<u>-</u>	<u>294,400</u>
End of Year	\$ 285,254	\$ -	\$ 285,254
	<u>\$ 285,254</u>	<u>\$ -</u>	<u>\$ 285,254</u>

HARBOR BEACH COMMUNITY SCHOOLS
PRIVATE-PURPOSE TRUST AND AGENCY FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2005

		<u>TRUST FUNDS</u>		<u>AGENCY FUND</u>	<u>TOTAL</u>
		<u>ANNA BELLE SCRANTON SCHOLARSHIP</u>	<u>DEER ACRES SCHOLARSHIP</u>	<u>STUDENT ACTIVITIES</u>	<u>2005</u>
<i>ASSETS</i>					
Cash		\$ 363	\$ 5,218	\$ 65,210	\$ 70,791
Investments		6,793			6,793
Total assets		<u><u>\$ 7,156</u></u>	<u><u>\$ 5,218</u></u>	<u><u>\$ 65,210</u></u>	<u><u>\$ 77,584</u></u>
 <i>LIABILITIES AND NET ASSETS</i>					
LIABILITIES:					
Due to student and other groups				\$ 65,210	\$ 65,210
NET ASSETS					
Total net assets		<u>\$ 7,156</u>	<u>\$ 5,218</u>	<u>-</u>	<u>12,374</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 7,156</u></u>	<u><u>\$ 5,218</u></u>	<u><u>\$ 65,210</u></u>	<u><u>\$ 77,584</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
PRIVATE-PURPOSE TRUST FUNDS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>ANNA BELLE SCRANTON SCHOLARSHIP</u>	<u>DEER ACRES SCHOLARSHIP</u>	<u>TOTAL 2005</u>
REVENUES			
Interest	\$ 1	\$ 93	\$ 94
Dividends	309		309
Increase (Decrease) in fair market value of investments	143		143
Donations			-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	<u>453</u>	<u>93</u>	<u>546</u>
EXPENDITURES			
Scholarship	200		200
Transfers out			-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	<u>200</u>	<u>-</u>	<u>200</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	253	93	346
NET ASSETS			
Beginning of Year	<u>6,903</u>	<u>5,125</u>	<u>12,028</u>
End of Year	<u>\$ 7,156</u>	<u>\$ 5,218</u>	<u>\$ 12,374</u>

HARBOR BEACH COMMUNITY SCHOOLS
AGENCY FUND - STUDENT ACTIVITIES
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BALANCE AT</u> <u>6/30/2004</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>BALANCE AT</u> <u>6/30/2005</u>
Advanced Placement - English	\$ 1,298	\$ 1,407	\$ 1,600	\$ 1,105
Art Design	3,603	2,060	3,991	1,672
Athletic Tournament	4,738	13,212	12,249	5,701
Band	8,044	24,466	24,803	7,707
Baseball Fund	233	-	-	233
Business Fund	19	-	-	19
Cheerleaders	389	-	-	389
Chicken BBQ	-	3,394	3,394	-
Class of '03	656	-	-	656
Class of '04	497	30	527	-
Class of '05	2,719	2,822	4,430	1,111
Class of '06	1,502	3,546	3,055	1,993
Class of '07	1,746	112	246	1,612
Class of '08	-	447	-	447
Coke Fund	5,280	20,565	21,955	3,890
Computer Club	1,515	-	-	1,515
Cross Country	1,542	3,176	4,635	83
Elementary Musical	140	347	362	125
Elementary Student Council	70	-	-	70
Elementary School Activity	1,519	10,139	10,643	1,015
Flower Fund	112	325	236	201
Future Farmers of America	4,425	20,852	19,609	5,668
Future Homemakers of America	282	-	-	282
Girls Varsity Basketball	114	1,245	1,038	321
Greenfield Village Trip	2,803	-	-	2,803
Greenhouse	-	157	-	157
HBAA & HBHS Scholarship	1,638	84	1,500	222
HBMS Student Fund	1,072	175	1,247	-
High School Band Trip	2,406	18,830	19,459	1,777
High School Play Fund	3,412	719	3,610	521
Home Liaison Fund	12,503	330	2,860	9,973
Huron Jr Honors Band	2,005	868	1,058	1,815
James Popilek Fund	1,200	-	-	1,200
Library Fund	445	1,443	1,599	289
Mary Bryson Award	-	-	-	-
Michigan Youth in Government	137	-	-	137
Middle School Projects	626	14,271	14,254	643
Mural Fund	1,019	-	-	1,019
National Honor Society	1,096	1,176	895	1,377
Newspaper Fund	113	-	-	113

(Continued)

HARBOR BEACH COMMUNITY SCHOOLS
AGENCY FUND - STUDENT ACTIVITIES
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2005

(Continued)	<u>BALANCE AT</u> <u>6/30/2003</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE AT</u> <u>6/30/2005</u>
Patio Landscaping	\$ 668	\$ -	\$ -	\$ 668
Physical Education	176	-	-	176
Pop Fund	307	-	-	307
Resource Room Club	5	-	-	5
Ruthann Woodland Elementary				
Library	186	-	-	186
Saturday Fun Nights	92	-	-	92
School Activity fund	24	12,137	12,137	24
Science Telescope Project	700	-	-	700
Soccer	146	-	137	9
Softball	231	-	-	231
Staff Fund	237	560	591	206
Student Council	298	345	431	212
Student Parking	360	-	-	360
Student Project Fund	-	-	-	-
Student Supplies Shop	13	-	-	13
Track club	(254)	5,303	2,734	2,315
Tractor Pull	2,739	4,245	6,984	-
Volleyball	2,415	11,217	10,941	2,691
Weightlifting Club	517	1,380	1,894	3
Yearbook	(2,421)	12,226	10,654	(849)
Interest income	-	134	134	-
TOTALS	<u><u>\$ 77,357</u></u>	<u><u>\$ 193,745</u></u>	<u><u>\$ 205,892</u></u>	<u><u>\$ 65,210</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
1998 (DURANT) BONDS
June 30, 2005

An annual appropriation to be made by the State of Michigan is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate funds, the district is under no obligation for payment.

PRINCIPAL DUE MAY 15		RATE	INTEREST DUE MAY 15		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
					JUNE 30	AMOUNT
\$	3,132	4.761%	\$	1,412	2006	\$ 4,544
	3,280	4.761%		1,263	2007	4,543
	3,438	4.761%		1,107	2008	4,545
	3,601	4.761%		943	2009	4,544
	3,773	4.761%		771	2010	4,544
	15,638	4.761%		5,805	2011	21,443
	4,140	4.761%		404	2012	4,544
	4,337	4.761%		206	2013	4,543
<u>\$ 41,339</u>			<u>\$ 11,911</u>			<u>\$ 53,250</u>

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2001 SCHOOL BUILDING AND SITE BONDS
June 30, 2005

The bond issue dated July 12, 2001 was for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping, reequipping, furnishing and refurbishing the existing middle school and high school facility to provide a PreK-12 facility. During 2005, the District refinanced these bonds in the amount of \$9,345,000.

PRINCIPAL DUE	RATE	INTEREST DUE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
			DATE	AMOUNT
	3.750%	\$ 41,719	11/1/2005	\$ 41,719
\$ 295,000		41,719	5/1/2006	336,719
	4.250%	36,188	11/1/2006	36,188
315,000		36,188	5/1/2007	351,188
	4.050%	29,494	11/1/2007	29,494
325,000		29,494	5/1/2008	354,494
	4.200%	22,913	11/1/2008	22,913
340,000		22,913	5/1/2009	362,913
	4.300%	15,773	11/1/2009	15,773
355,000		15,773	5/1/2010	370,773
	4.400%	8,140	11/1/2010	8,140
370,000		8,136	5/1/2011	378,136
<u>\$ 2,000,000</u>		<u>\$ 308,450</u>		<u>\$ 2,308,450</u>

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2005 REFUNDING BONDS
June 30, 2005

The 2005 Refunding Bonds will replace the bond issue dated July 12, 2001.

PRINCIPAL DUE	RATE	INTEREST DUE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
			DATE	AMOUNT
		\$ 197,873	11/1/2005	\$ 197,873
\$ 40,000	3.000%	208,288	5/1/2006	248,288
		207,688	11/1/2006	207,688
40,000	3.000%	207,688	5/1/2007	247,688
		207,088	11/1/2007	207,088
40,000	3.000%	207,088	5/1/2008	247,088
		206,488	11/1/2008	206,488
40,000	3.000%	206,488	5/1/2009	246,488
		205,888	11/1/2009	205,888
40,000	3.100%	205,888	5/1/2010	245,888
		205,268	11/1/2010	205,268
40,000	3.250%	205,268	5/1/2011	245,268
		204,618	11/1/2011	204,618
430,000	4.000%	204,618	5/1/2012	634,618
		196,018	11/1/2012	196,018
450,000	4.000%	196,018	5/1/2013	646,018
		187,018	11/1/2013	187,018
470,000	4.250%	187,018	5/1/2014	657,018
		177,030	11/1/2014	177,030
490,000	4.000%	177,030	5/1/2015	667,030
		167,230	11/1/2015	167,230
510,000	4.250%	167,230	5/1/2016	677,230
		156,393	11/1/2016	156,393
530,000	4.250%	156,393	5/1/2017	686,393
		145,130	11/1/2017	145,130
555,000	4.250%	145,130	5/1/2018	700,130
		133,336	11/1/2018	133,336
575,000	4.250%	133,336	5/1/2019	708,336
		121,118	11/1/2019	121,118
600,000	4.250%	121,118	5/1/2020	721,118
		108,368	11/1/2020	108,368
630,000	4.250%	108,368	5/1/2021	738,368
		94,980	11/1/2021	94,980
655,000	4.250%	94,980	5/1/2022	749,980
		81,061	11/1/2022	81,061
685,000	4.250%	81,061	5/1/2023	766,061
		66,505	11/1/2023	66,505
715,000	4.250%	66,505	5/1/2024	781,505
		51,311	11/1/2024	51,311
745,000	4.300%	51,311	5/1/2025	796,311
		35,294	11/1/2025	35,294
780,000	4.400%	35,294	5/1/2026	815,294
		18,134	11/1/2026	18,134
815,000	4.450%	18,123	5/1/2027	833,123
<u>\$ 9,875,000</u>		<u>\$ 6,358,078</u>		<u>\$ 16,233,078</u>



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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 1, 2005

To the Board of Education
Harbor Beach Community Schools
Harbor Beach, MI 48441

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach Community Schools as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the District's primary government and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Harbor Beach Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Harbor Beach Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Education
Harbor Beach Community Schools
September 1, 2005

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS